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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 001257

SIPDIS

STATE FOR SCA/CEN; EEB; NEA/IR  
ENERGY FOR JELKIND/EKIMOFF/BURPOE/COHEN  
COMMERCE FOR EHOUSE

E.O. 12958: DECL: 09/30/2019  
TAGS: [EPET](#) [ECON](#) [PGOV](#) [EINV](#) [BTIO](#) [TX](#)  
SUBJECT: TURKMENISTAN: RETHINKING THE APPROACH FOR U.S.  
ONSHORE ENERGY DEALS

REF: A. 07 ASHGABAT 598  
[1](#)B. ASHGABAT 1141  
[1](#)C. ASHGABAT 1207  
[1](#)D. ASHGABAT 1252

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Following the September 21 meeting between the Secretary and President Berdimuhamedov, post received additional feedback from GOTX officials regarding the USG push for U.S. energy companies to develop onshore hydrocarbon resources in Turkmenistan. The GOTX remains adamant that its standing policy has been and will continue to be to develop its proven, onshore gas resources without giving up control to foreign energy companies. An official told post that the government is "frankly tired" of repeating this policy to U.S. companies and the USG. Some energy experts and expatriate business people in Turkmenistan have underscored the importance of building business relationships in Turkmenistan via long-term service contracts or offshore exploration, as opposed to "parachuting-in" with a big company name, without having demonstrated a commitment to the Turkmen. A few U.S. companies have shared their frustration over Turkmen "obstinacy" in regard to its "hands-off" onshore policy, declining to pursue offshore exploration opportunities or onshore service contracts, choosing instead to lobby the USG for more assistance in getting onshore deals. While the GOTX did grant an exception to its onshore policy to the Chinese, U.S. energy companies are not offering a transcontinental pipeline to sweeten the deal. Nor are U.S. companies currently willing to start as service providers, like the Chinese did. U.S. companies also need to make their appeals directly to the one decisionmaker, who cares more about receiving awards and reminders of his importance than drilling technology. Some observers in Ashgabat continue to call for a high-level U.S.-Turkmen meeting that would theoretically give the Turkmen more international credibility, while assisting U.S. companies attempting to gain a foothold in Turkmenistan. END SUMMARY.

## TURKMENISTAN'S ONSHORE POLICY

12. (C) Turkmen President Gurbanguly Berdimuhamedov remains intransigent on the question of allowing foreign energy companies to operate onshore: only service contracts will be considered. The GOTX onshore policy is not a law, but overturning it would require presidential approval in the form of a waiver. The Chinese National Petroleum Corporation (CNPC) received such a waiver to develop the Sanan Deper and Altyn Asyr fields in eastern Turkmenistan near the Uzbek border under a production sharing agreement (PSA). As part of the PSA, the Chinese agreed to build the Central Asia pipeline, which the Turkmen hail as a key component in diversifying their gas export options. To date, the waiver has only been granted to CNPC, which has been a sore spot for other foreign energy companies looking for access to massive onshore gas fields. Despite the waiver granted to the Chinese, GOTX officials maintain that the onshore policy remains intact to ensure that Turkmen natural resources are developed in a way that provides maximum benefits to Turkmenistan.

## SOME BACKGROUND FOR THE CURRENT POLICY

13. (C) According to local experts, the GOTX's standing policy to grant only service contracts to foreign companies dates back to 1992, when the Argentine oil company Bidas was awarded a PSA to develop the Yashlar natural gas field in eastern Turkmenistan. In 1993, Bidas received a second PSA to develop the Keymir oil field in western Turkmenistan; it

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was reportedly understood that Bidas would build the Trans-Afghanistan pipeline with U.S.-based Unocal as part of the deal. Between 1995-1996, the GOTX reportedly started to exhibit buyer's remorse for both PSAs with Bidas, when the GOTX reportedly realized that the terms of the PSAs were too much in Bidas' favor. Our contacts recalled that the GOTX started putting immense pressure on Bidas' operations, making it nearly impossible for Bidas employees to get visas to re-enter the country. Bidas applied to international courts after the GOTX reportedly froze Bidas oil exports, and the company received a favorable decision, but was unable to collect from the GOTX. By 2000, the Turkmen government had become so annoyed with Bidas that it reportedly kicked the company out of the country (ref A).

## THE TURKMEN ONSHORE POLICY STANDS

14. (C) Head of the Americas Department at the Turkmen MFA Serdar Bashimov told the Charge on September 25 that the GOTX would prefer the USG stop raising the onshore issue, as it has already given its position multiple times. Bashimov expressed surprise that the USG has consistently either ignored the Turkmen reply regarding the onshore policy or misunderstood it. The fact that the issue continues to be raised with Berdimuhamedov seems to confirm for the Turkmen that U.S. companies and the USG have trouble taking multiple "No's" for an answer. MFA's Bashimov added that there is still a distrust of big companies and big countries in Turkmenistan, despite the exception granted to the Chinese. However, he pointed out that the Chinese started doing well rehabilitation in 2002. They then worked as service providers. It was after working here as service providers, that they were able to get their waiver and work onshore in 2007, a process several other companies, including the Turkish company Lotus Enerji, which is currently a service provider, hope to duplicate.

## IT'S ALL ABOUT RELATIONSHIPS...AND RESPECT

15. (C) Business people with years of experience in Turkmenistan assert that many American companies have not yet learned that building solid, long-term relationships precedes any deal, especially an onshore deal, given that the Turkmen

view the onshore deposits to be the most lucrative. Companies that "parachute-in" to Ashgabat from time-to-time with a CEO have a difficult time competing with companies that have established offices and people on the ground around the clock. In addition, participation at local business, cultural, and government-sponsored events is noted by GOTX officials and is reportedly used as criteria for determining which companies get high-level meetings. It is important to note that although the Turkmen value companies which show a long-term commitment to doing business in Turkmenistan, the complicated and often corrupt bureaucracy does not make setting up an office in Ashgabat easy.

¶6. (C) Unfortunately, some American companies have used the same hard charging approach that they would use in the United States. This does not work with the Turkmen. They find it off-putting. Turkmen officials have told us that appeals regarding the fame, industrial prowess, and technological savvy of a company also do not work. Instead of being impressed, the Turkmen feel they are being told Turkmen entities are not qualified or capable of doing the job. While that may be true, the Turkmen feel such an approach is an affront to Turkmen pride and are insulted. Therefore, it is counter-productive.

¶7. (C) One way for U.S. energy companies to build better relationships with the GOTX might be to consider alternative

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projects in addition to making the onshore a more long-term goal. Turkmen oil and gas officials have expressed difficulty in understanding why no U.S. energy companies, besides ConocoPhillips, are interested in developing offshore blocks or accepting an onshore service contract, as a first phase of commercial engagement in the country. Chevron and ExxonMobil officials have told us on more than one occasion that they view offshore production options as too risky, and service contracts are not in their business plans (ref B). In addition, several international oil and gas service companies have been in-country for many years, building long-term relationships with the Turkmen in addition to fulfilling their contracts with large energy companies. Representatives from Schlumberger continue to seek direct contracts with the GOTX, alluding to the strong, long-term relationship they have built over the last ten years (ref C).

APPEALING TO THE DECISIONMAKER

¶8. (C) The current President of Turkmenistan considers himself and Turkmenistan to be meaningful players in international economics and politics. Moreover, the concept of developing mutual respect before doing business is a chief value among Turkmen. GOTX officials keep mental notes regarding those countries and companies that have been particularly respectful, as well as those which, according to Turkmen standards, have not. Letters of congratulation to the president for national holidays and his birthday, and invitations to visit the United States are not only positive ways for companies to show respect, but they are also expected on the Turkmen side. The absence of such gestures is noted and meeting requests can go unanswered for months because the GOTX did not feel that it had the respect of a company or country.

¶9. (C) Berdimuhamedov is a vain individual, who loves and expects praise (ref D). Successful foreign businesses recognize this fact and act accordingly. He is also the ultimate decisionmaker in this system and increasingly relies on his own judgment rather than that of advisors and others in the government. He loves to receive awards and told Charge that the favorite part of his recent trip to UNGA was that Trenton, New Jersey had declared September 24, 2009 "Day of the Turkmenistan President." Consequently, Trenton, New Jersey has become the most important spot in the entire United States for Berdimuhamedov. MFA officials have told us that Berdimuhamedov extended an invitation to Trenton city

officials to visit and now wants to have sister city and other direct relations with Trenton and New Jersey. While U.S. businesses cannot engage in the corrupt business practices that some companies from other countries do to grease the skids here, they should understand that buttering up Berdimuhamedov, giving him awards, and singing his praises will get you very far. And if a U.S. business can get its hometown or home state to declare Berdimuhamedov Day or have hometown officials visit Turkmenistan and liberally mention the name of the company while praising Berdimuhamedov, it would put the company in good stead here.

ENGAGE, ENGAGE, ENGAGE

¶10. (C) A U.S. business representative, who has been in Ashgabat for over ten years, recently told us that the Chinese and the Russians have a good understanding of the high-level respect that Berdimuhamedov requires, citing frequent visits by both the Russian and Chinese heads of state to Turkmenistan. He opined that the last U.S. high ranking official in Ashgabat was Senator Lugar, who is well-respected by the Turkmen, "but frankly not the Secretary of State and certainly not the President." Short of a

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presidential invitation to visit Washington, this U.S. company rep felt that even a regional visit by the Secretary of State would do much for U.S. companies in Turkmenistan. Clearly, U.S. business people and Turkmen contacts feel that high-level U.S. engagement in Turkmenistan might provide the Turkmen President the respect he is seeking, and go a long way to help U.S. companies open the doors and build the trust required to gain access to business opportunities in Turkmenistan. It is also significant that the Turkmen tend to reciprocate USG interest in Turkmenistan with GOTX interest in U.S. companies.

¶11. (C) In 2007, right after Berdimuhamedov came to power, an endless stream of U.S. visitors came to Turkmenistan in order to "turn the page" in the relationship. Perhaps the bloom is off the Turkmen rose to some extent. Nevertheless, it is still important to "engage, engage, engage." Other countries' officials -- to the level of head of state and cabinet ministers - still visit Ashgabat, more now than two years ago. This face time with other leaders is important to the Turkmen leadership. And it no doubt helps their businesses. We should also have regular visits by U.S. officials to Ashgabat. Their absence has been noted by the Turkmen. And, as already mentioned, visits by U.S. state and local officials would also be warmly welcomed by the Turkmen.

ROAD TO ONSHORE

¶12. (C) Several U.S. oil and gas companies are extremely interested in partnering with the Turkmen to develop the "low-hanging," but still technically challenging, "fruit" available in onshore gas fields. The GOTX has repeatedly told us that these companies should pursue either onshore service contracts or vie for offshore blocks. Given the GOTX's negative experience involving its PSA with Bidas and the GOTX's long memory when it comes to events that it found uncomfortable or not satisfying, it is reasonable to assume that the GOTX is still leery of granting big business access to its onshore deposits. ExxonMobil's decision to pull out of Turkmenistan in 2002 remains a vivid memory among chief gas sector officials, and no doubt casts an additional cloud over its efforts to re-enter Turkmenistan. If the current onshore deal with the Chinese sours, it will most likely only give the Turkmen more cause to be leery of large foreign energy companies.

¶13. (C) Instead of pushing for an immediate onshore deal, it appears that U.S. energy companies might do well to consider other options for awhile with the idea of parlaying it possibly into something more later. This would include showing more flexibility in considering service contracts or

pursuing offshore opportunities, in order to build long-lasting relationships with the Turkmen. Another tack is to try appealing more directly to the vanity of the one decisionmaker in the country. He cares less about drilling technology than being reminded how great he is. It does not appear that the GOTX has any immediate plans to veer from its current onshore policy that keeps foreign energy companies at arm's length. In addition, increased high-level U.S. engagement in Turkmenistan would be taken as a positive step that could lead to overall better bilateral relations with this increasingly relevant regional partner.

CURRAN